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# Raising the Minimum Wage: An Economic Gain

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**Abstract**
Modern minimum wage laws can trace their lineage all the way back to the Ordinance of Laborers of 1349, which was decreed by King Edward the Third of England that set a maximum wage for laborers in medieval England. King Edward was forced to this end due to the large portion of his laborers falling ill and perishing from catching the Black Plague. The 1300s were the last time a wage ceiling was needed for this means and ever since then wage regulations have come in the form of wage floors commonly referred to as the minimum wage. The first country to enact a modern national minimum wage was New Zealand in 1894, the United States had its first statutory national minimum wage introduced in 1938 (Richard, 2016). The minimum wage in the United States has been one of the most hotly debated topics of the last presidential election and for years before that as well. Minimum wage in the United States has been debated in nearly every congressional session, often with no resolution. In 2007, the federal minimum wage was raised to $5.85 an hour; prior to this increase, the minimum wage had not changed since 1997. During that time, the cost of goods had increased by nearly 23 percent, while housing and higher education costs went up even more significantly (Richard, 2016). Raising of the minimum wage is believed to have one main negative cause and that is to increase the level of unemployment of the economy. The issue surrounding raising the minimum wage is not regarding whether the higher wage will increase unemployment but, however, on whether or not the benefits felt by the economy outweigh the costs incurred by the decreased employment.

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One of the key benefits to raising the minimum wage is the increased competition for the available minimum wage jobs. Based on our upward sloping labor supply curve, more people are willing to work the higher the wage which thus means more highly qualified workers, ones with more human capital, will be attempting to be employed at minimum-wage-earning jobs. An empirical study done in Britain of the national minimum wage suggests similar tendencies. According to Rebecca Riley in her article from the National Institute of Economic and Social Research and Centre for Macroeconomics:

"We find evidence to suggest that companies responded to these increases in labour costs by raising labour productivity. These labour productivity changes did not appear to come about via a reduction in firms' workforce or via capital-labour substitution. Rather they were associated with increases in total factor productivity, as theories of organizational change, training and efficiency wages would suggest."

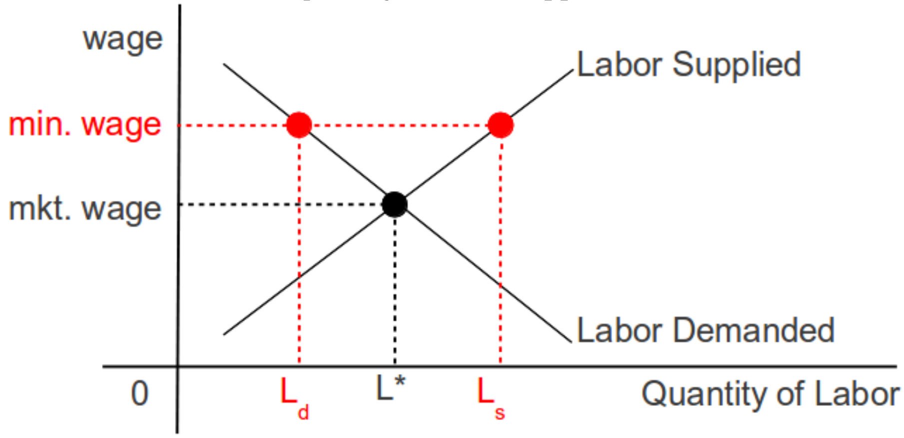
This quote is discussing the productivity increases, associated with increased human capital, which companies in Britain had experienced after an increase in their minimum wage. Increased productivity is one of the ways in which economists believe the macro economy grows, therefore, an increase in the minimum wage is thus said to cause an overall increase in a countries GDP. This is still the evidence of just one empirical study, but if there is some correlation between worker's human capital and GDP it would be logical to assume that an increase in the minimum wage would bring higher human capital into lower paying jobs and service to grow the economy.

Not only does an increase on the minimum wage have effects on the direct income of low-wage-earning laborers, but according to a study done in New York City it could also have major positive implications on healthcare. The study performed simulations to assess how the proportion of low-income residents in each neighborhood might change with a hypothetical $15 minimum wage under alternative assumptions of labor market dynamics (Tsao et al., 2016). The most substantiated part of the study came when looking at the effects the increased minimum wage would have on reductions in the premature mortality rate. A $5 minimum wage could have averted 2800 to 5500 premature deaths between 2008 and 2012 in New York City, representing 4% to 8% of total premature deaths in that period (Tsao et al., 2016). A higher minimum wage may have substantial positive effects on health and should be considered as an instrument to address health disparities, these positive benefits must be taken into account when there is any form of debate surrounding raising the minimum wage.

The minimum wage has gained momentum among policymakers as a way to alleviate rising wage and income inequality (Neumark, 2015). According to Richard (2016), in 2007, the federal minimum wage was raised to $5.85 an hour; prior to this increase, the minimum wage had not changed since 1997. During that time, the cost of goods increased by nearly 23 percent, while housing and higher education costs went up even more significantly." This increasing cost of living, when mixed with a stagnant minimum wage, is driving more and more families towards the poverty level. A family of three earning the minimum wage still falls below the federal poverty level. For example, total earnings in 2008 for a full-time minimum wage earner, based on a year of fifty-two-weeks, was $13,624, compared to the poverty level set for family of three of $17,600 (Richard, 2016). Therefore all of the 1.7 million workers who are at the pay level of minimum wage and support a family of three fall under the category of impoverished. The significance of these numbers is based upon how many of the minimum wage earning laborers are actually using these wages to support a family of three; therefore, if it is found that many of said laborers are not in turn supporting families, then the laborers earning minimum wages would not be classified as impoverished. This previously mentioned situation is one of the main arguments made against the raising of the minimum wage. The numbers of minimum wage earners around the poverty line also fail to take into account the laborers who work for wages set between a dollar and three dollars above the minimum wage, which includes most fast-food restaurants and retail stores, which can then lead to an underestimation of the amount of laborers a minimum wage increase would impact. Thus the impact of a raising minimum wage would have a large scale impact on the reduction of laborers living near or at the poverty level.

Much of the debate over the minimum wage centers on whether raising the minimum wage causes job loss, as well as the potential magnitude of those losses. It has been generally accepted practice among economists that an increase in the minimum wage causes an increase in unemployment. Arizona responses likely taken by the businesses which employ minimum-wage earning workers are discussed. The impact of increasing the wages of labor on business, the replacement of labor with automatic machines, and the demand for less working hours by the employees are all presumed effects of the increased minimum wage (Varney, 2016). Recent research shows conflicting evidence on both sides of the issue. In general, the evidence suggests that it is appropriate to weigh the cost of potential job losses from a higher minimum wage against the benefits of wage increases for other workers (Neumark, 2015). With taking into account the assumption that a raising of the minimum wage increases unemployment, as shown in the attached graph, we must then prove that the benefits of raising the minimum wage outweigh these costs of the increased unemployment. We can see here how a minimum wage placed above the equilibrium wage for the labor market causes a surplus of labor.

A surplus of labor in the labor market represents unemployment, which is shown here as the difference between the quantity of labor supplied and labor demanded.




In conclusion, it is widely accepted economic principal that an increase in minimum wage is shown to cause an increase in the level of unemployment. While the benefits resulting from an increased minimum wage include, but are not limited to, decreased poverty, increased productivity, and decreased premature mortality. When discussing a potential increase in the minimum wage the possible benefits of said increase to the minimum wage should be put through a cost-benefit analysis to find out if the benefits outweigh the costs. If a correct policy application is put into place to raise the minimum wage, then the benefits will outweigh the cost and it will thus be beneficial to the economy. A policy recommendation to take advantage of the benefits of increasing the minimum wage while attempting to minimize the costs would be various small increases in minimum wage, spread over the next 20 years, is to marginalize the effects of the unemployment while maximizing the increases in quality of living and productivity that are brought about with each increase. With small increases to the minimum wage spread over the near future, the benefits that are felt by the macro economy will be more substantial than the costs of the increase to unemployment; therefore, the minimum wage should be increased and will have far ranging positive effects for the economy and society in general.

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